

*Township of Pavilion*  
*Kalamazoo County, Michigan*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended March 31, 2008*

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## INDEPENDENT AUDITORS' REPORT

**Board of Trustees  
Township of Pavilion, Michigan**

**We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Pavilion, Michigan, as of March 31, 2008, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of Township of Pavilion, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.**

**We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.**

**In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Pavilion, Michigan, as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.**

**As disclosed in Note 13 to the financial statements the Township recorded a prior period adjustment to correct its method of accounting for certain assessments receivable.**

**The budgetary comparison information on pages 20 through 22 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Township of Pavilion, Michigan, has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.**



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Board of Trustees  
Township of Pavilion, Michigan  
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Pavilion, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Sigfried Crandall P.C.*

May 30, 2008

## **BASIC FINANCIAL STATEMENTS**

**Township of Pavilion**  
**STATEMENT OF NET ASSETS**  
March 31, 2008

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	<u><b>Governmental activities</b></u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 787,416
Receivables, net	<u>191,316</u>
Total current assets	<u>978,732</u>
Noncurrent assets:	
Receivables, net	864,166
Capital assets, not being depreciated	68,509
Capital assets, net of accumulated depreciation	<u>1,488,098</u>
Total noncurrent assets	<u>2,420,773</u>
Total assets	<u>3,399,505</u>
<b>LIABILITIES</b>	
Current liabilities:	
Payables	57,532
Current portion of long-term obligations	<u>90,821</u>
Total current liabilities	148,353
Noncurrent liabilities - long-term obligations	<u>735,239</u>
Total liabilities	<u>883,592</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,381,607
Restricted for:	
Public works	435,758
Debt service	258,715
Unrestricted	<u>439,833</u>
Total net assets	<u>\$ 2,515,913</u>

See notes to financial statements

**Township of Pavilion**  
**STATEMENT OF ACTIVITIES**  
Year ended March 31, 2008

		<u>Program revenues</u>			<u>Net (expenses)</u> <u>revenues and</u> <u>changes in</u> <u>net assets</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Governmental</u>
	<u>Expenses</u>	<u>services</u>	<u>grants and</u> <u>contributions</u>	<u>grants and</u> <u>contributions</u>	
<b>Functions/Programs</b>					
Governmental activities:					
Legislative	\$ 6,436	\$ -	\$ -	\$ -	\$ (6,436)
General government	409,403	78,681	-	-	(330,722)
Public safety	192,009	27,282	-	27,360	(137,367)
Public works	117,160	34,714	5,330	28,504	(48,612)
Community and economic development	13,350	9,257	-	-	(4,093)
Interest on long-term obligations	<u>48,019</u>	<u>38,121</u>	<u>-</u>	<u>-</u>	<u>(9,898)</u>
Total governmental activities	<u>\$ 786,377</u>	<u>\$ 188,055</u>	<u>\$ 5,330</u>	<u>\$ 55,864</u>	<u>(537,128)</u>
General revenues:					
Taxes					161,677
State grants					395,408
Franchise fees					651
Investment income					16,092
Other					<u>5,317</u>
Total general revenues					<u>579,145</u>
Change in net assets					42,017
Net assets - beginning					<u>2,473,896</u>
Net assets - ending					<u>\$ 2,515,913</u>

See notes to financial statements

**Township of Pavilion**  
**BALANCE SHEET - governmental funds**  
 March 31, 2008

	<u>General</u>	<u>Sewer</u>	<u>Indian/ Pickeral Debt</u>
<b>ASSETS</b>			
Cash	\$ 268,684	\$ 214,730	\$ 2,733
Receivables	<u>73,462</u>	<u>185,258</u>	<u>255,636</u>
Total assets	<u>\$ 342,146</u>	<u>\$ 399,988</u>	<u>\$ 258,369</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Payables	\$ 39,256	\$ -	\$ 6,906
Deferred revenue	<u>-</u>	<u>17,305</u>	<u>251,453</u>
Total liabilities	<u>39,256</u>	<u>17,305</u>	<u>258,359</u>
Fund balances:			
Unreserved	302,890	382,683	10
Unreserved, reported in nonmajor special revenue funds	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>302,890</u>	<u>382,683</u>	<u>10</u>
Total liabilities and fund balances	<u>\$ 342,146</u>	<u>\$ 399,988</u>	<u>\$ 258,369</u>

Total fund balances - total governmental funds

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in *governmental activities* are not financial resources and are not reported in the funds.

Accrued interest receivable is not a current financial resource and is not reported in the funds.

Special assessments receivable are not available to pay for the current period's expenditures and is deferred in the funds.

Long-term liabilities, including contracts payable, are not due and payable in the current period and are not reported in the funds.

Interest related to long-term liabilities is not due and payable in the current period and is not reported in the funds.

Net assets of *governmental activities*



<u>Northwest Water Debt</u>	<u>Sewer Debt</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
\$ 115,239	\$ 3,435	\$ 182,595	\$ 787,416
<u>290,184</u>	<u>221,017</u>	<u>1,571</u>	<u>1,027,128</u>
<u>\$ 405,423</u>	<u>\$ 224,452</u>	<u>\$ 184,166</u>	<u>\$ 1,814,544</u>
\$ -	\$ -	\$ 2,550	\$ 48,712
<u>284,890</u>	<u>221,017</u>	<u>-</u>	<u>774,665</u>
<u>284,890</u>	<u>221,017</u>	<u>2,550</u>	<u>823,377</u>
120,533	3,435	-	809,551
<u>-</u>	<u>-</u>	<u>181,616</u>	<u>181,616</u>
<u>120,533</u>	<u>3,435</u>	<u>181,616</u>	<u>991,167</u>
<u>\$ 405,423</u>	<u>\$ 224,452</u>	<u>\$ 184,166</u>	<u>\$ 1,814,544</u>
			\$ 991,167
			1,556,607
			28,354
			774,665
			(826,060)
			<u>(8,820)</u>
			<u>\$ 2,515,913</u>

See notes to financial statements

**Township of Pavilion****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - governmental funds**

Year ended March 31, 2008

	<u>General</u>	<u>Sewer</u>	<u>Indian/ Pickeral Debt</u>
<b>REVENUES</b>			
Taxes	\$ 214,179	\$ -	\$ -
Licenses and permits	27,933	-	-
Federal grants	27,360	-	-
State grants	400,738	-	-
Charges for services	46,879	-	-
Interest and rentals	5,963	7,435	15,866
Other	4,817	18,934	44,094
	<u>727,869</u>	<u>26,369</u>	<u>59,960</u>
Total revenues			
	<u>727,869</u>	<u>26,369</u>	<u>59,960</u>
<b>EXPENDITURES</b>			
Legislative	6,436	-	-
General government	385,316	-	-
Public safety	115,539	-	-
Public works	92,745	45,967	-
Community and economic development	13,350	-	-
Capital outlay	55,583	-	-
Debt service:			
Principal	50,000	-	44,036
Interest	10,200	-	15,914
	<u>729,169</u>	<u>45,967</u>	<u>59,950</u>
Total expenditures			
	<u>729,169</u>	<u>45,967</u>	<u>59,950</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(1,300)</u>	<u>(19,598)</u>	<u>10</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	(500)	-	-
	<u>(500)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)			
	<u>(500)</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(1,800)	(19,598)	10
<b>FUND BALANCES - BEGINNING</b>	<u>304,690</u>	<u>402,281</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 302,890</u>	<u>\$ 382,683</u>	<u>\$ 10</u>

<b><u>Northwest Water Debt</u></b>	<b><u>Sewer Debt</u></b>	<b><u>Total nonmajor governmental funds</u></b>	<b><u>Total governmental funds</u></b>
\$ -	\$ -	\$ -	\$ 214,179
-	-	-	27,933
-	-	-	27,360
-	-	-	400,738
-	-	-	46,879
20,400	5,084	4,390	59,138
49,983	6,720	17,338	141,886
<u>70,383</u>	<u>11,804</u>	<u>21,728</u>	<u>918,113</u>
-	-	-	6,436
-	-	-	385,316
-	-	-	115,539
971	-	21,399	161,082
-	-	-	13,350
-	-	-	55,583
40,000	1,000	-	135,036
9,070	10,310	-	45,494
<u>50,041</u>	<u>11,310</u>	<u>21,399</u>	<u>917,836</u>
<u>20,342</u>	<u>494</u>	<u>329</u>	<u>277</u>
-	-	500	500
-	-	-	(500)
-	-	500	-
20,342	494	829	277
<u>100,191</u>	<u>2,941</u>	<u>180,787</u>	<u>990,890</u>
<u>\$ 120,533</u>	<u>\$ 3,435</u>	<u>\$ 181,616</u>	<u>\$ 991,167</u>

See notes to financial statements

***Township of Pavilion***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - *governmental funds* (Continued)**

*Year ended March 31, 2008*

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	<b><i>Total governmental funds</i></b>
	<hr/>
Net change in fund balances - total governmental funds	\$ 277
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:	
Capital assets:	
Additions	119,363
Depreciation	(92,526)
Deferred revenue:	
Special assessment additions	28,504
Special assessment collections	(119,231)
Long-term debt:	
Issued	(38,625)
Retirements	147,911
Changes in other current assets/liabilities:	
Net increase in accrued interest revenue	1,008
Net decrease in prepaid expenses	(3,257)
Net increase in accrued interest expense	<u>(1,407)</u>
Change in net assets of <i>governmental activities</i>	<u>\$ 42,017</u>

*See notes to financial statements*

***Township of Pavilion***

**STATEMENT OF FIDUCIARY NET ASSETS - *Agency Fund***

*March 31, 2008*

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**ASSETS**

Cash	\$ <u>434</u>
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**LIABILITIES**

Due to other governmental units	\$ <u>434</u>
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*See notes to financial statements*

**Township of Pavilion**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Township of Pavilion, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

*a) Reporting entity:*

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Township of Pavilion**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

*c) Measurement focus, basis of accounting, and financial statement presentation:*

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Sewer Fund accounts for the financial resources used for the expansion and maintenance of sewer lines within the Township. Revenues are primarily derived from connection fees and special assessments.

The Indian/Pickeral Debt Fund accounts for the financial resources used for payments of long-term contractual obligations to the South County Sewer and Water Authority. Revenues are primarily derived from special assessments.

The Northwest Water Debt Fund accounts for the financial resources used for payments of long-term bond obligations. Revenues are primarily derived from special assessments.

The Sewer Debt Fund accounts for the financial resources used for payments of long-term bond obligations. Revenues are primarily derived from special assessments.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). The Township has elected not to follow subsequent private-sector standards.

The Township reports a single fiduciary fund, Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Township of Pavilion**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**d) Assets, liabilities, and net assets or equity:**

i) *Bank deposits* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds.

ii) *Receivables* - In general, outstanding balances between funds are reported as "due to/from other funds." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) *Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) *Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 40 years
Equipment	3 - 5 years
Vehicles	3 - 20 years
Infrastructure	40 years

v) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.



**Township of Pavilion**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year. There were no significant budget variations for the year ended March 31, 2008.

**NOTE 3 - CASH:**

The Township's cash is as follows:

	<u>Governmental activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 787,416	\$ 434	\$ 787,850

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At March 31, 2008, \$444,016 of the Township's bank balances of \$784,415 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**Township of Pavilion**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 - RECEIVABLES:**

Receivables as of year end for the government's individual major and nonmajor funds, in the aggregate, are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Property taxes</u>	<u>Special assessments</u>	<u>Inter- governmental</u>	<u>Totals</u>
General	\$ 1,916	\$ 8,919	\$ -	\$ 62,627	\$ 73,462
Sewer	-	-	185,258	-	185,258
Indian/Pickeral Debt	-	-	255,636	-	255,636
Northwest Water Debt	-	-	290,184	-	290,184
Sewer Debt	-	-	221,017	-	221,017
Other governmental	-	-	1,571	-	1,571
Totals	<u>\$ 1,916</u>	<u>\$ 8,919</u>	<u>\$ 953,666</u>	<u>\$ 62,627</u>	<u>\$ 1,027,128</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 864,166</u>	<u>\$ -</u>	<u>\$ 864,166</u>

All receivables are considered fully collectible.

**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity for the year ended March 31, 2008, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 68,509	\$ -	\$ -	\$ 68,509
Capital assets being depreciated:				
Buildings and improvements	482,331	-	-	482,331
Equipment	345,569	32,203	-	377,772
Vehicles	702,219	-	-	702,219
Infrastructure	563,553	87,160	-	650,713
Subtotal	<u>2,093,672</u>	<u>119,363</u>	<u>-</u>	<u>2,213,035</u>
Less accumulated depreciation for:				
Buildings and improvements	(192,015)	(12,721)	-	(204,736)
Equipment	(164,844)	(32,232)	-	(197,076)
Vehicles	(239,908)	(28,967)	-	(268,875)
Infrastructure	(35,644)	(18,606)	-	(54,250)
Subtotal	<u>(632,411)</u>	<u>(92,526)</u>	<u>-</u>	<u>(724,937)</u>
Total capital assets being depreciated, net	<u>1,461,261</u>	<u>26,837</u>	<u>-</u>	<u>1,488,098</u>
Governmental activities capital assets, net	<u>\$ 1,529,770</u>	<u>\$ 26,837</u>	<u>\$ -</u>	<u>\$ 1,556,607</u>

**Township of Pavilion**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - CAPITAL ASSETS (Continued):**

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 20,830
Public safety	53,090
Public works	<u>18,606</u>
	<u>\$ 92,526</u>

**NOTE 6 - NONCURRENT LIABILITIES:**

Long-term debt at March 31, 2008, is comprised of the following individual issues:

Governmental activities

Contract Payable:

The Township has agreed to remit to the South County Sewer and Water Authority all principal and interest collections arising from special assessments levied on Township properties served by the Authority. In the event that the Authority is unable to meet its debt service requirements, an assessment may be made against the Township of Pavilion and a neighboring township. The Township has pledged its full faith and credit for the payment of its share (26.56%) of any such deficiency. \$ 251,510

\$38,625 Austin Drain Assessment through the Kalamazoo County Drain Commission with annual installments of \$12,875, plus interest at 4.96%. Final payment is due February 2010. 25,750

Purchase agreements:

\$215,800 2005 installment purchase agreement due in annual installments of \$1,000 to \$37,000, plus interest at 4.8%. Final payment is due April 2020. 213,800

\$250,000 2006 installment purchase agreement due in annual installments of \$25,000, plus interest at 4.8%. Final payment is due June 2011. 175,000

Bonds payable:

\$555,000 2002 special assessment bonds due in annual installments of \$5,000 to \$40,000 starting June 2003, through June 2017, plus interest at 4.9%. The Township has pledged its full faith and credit for the payment of the bonds. 160,000

Total governmental activities \$ 826,060

Long-term debt activity for the year ended March 31, 2008, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Contracts payable	\$ 295,546	\$ 38,625	\$ (56,911)	\$ 277,260	\$ 40,821
Purchase agreements	439,800	-	(51,000)	388,800	50,000
Bonds payable	<u>200,000</u>	<u>-</u>	<u>(40,000)</u>	<u>160,000</u>	<u>-</u>
Total	<u>\$ 935,346</u>	<u>\$ 38,625</u>	<u>\$ (147,911)</u>	<u>\$ 826,060</u>	<u>\$ 90,821</u>

**Township of Pavilion**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 6 - NONCURRENT LIABILITIES (Continued):**

At March 31, 2008, debt service requirements on long-term debt are follows:

<u>Year ended</u> <u>March 31,</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 90,821	\$ 29,494
2010	91,821	35,319
2011	78,946	30,835
2012	89,746	26,990
2013	63,946	23,226
2014 - 2018	395,780	54,724
2019 - 2020	<u>15,000</u>	<u>1,200</u>
Totals	<u>\$ 826,060</u>	<u>\$ 201,788</u>

**NOTE 7 - PAYABLES:**

<u>Fund</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Payroll</u>	<u>Totals</u>
General	\$ 21,443	\$ -	\$ 17,813	\$ 39,256
Indian/Pickeral Debt	-	6,906	-	6,906
Other governmental	<u>2,550</u>	<u>-</u>	<u>-</u>	<u>2,550</u>
Totals	<u>\$ 23,993</u>	<u>\$ 6,906</u>	<u>\$ 17,813</u>	<u>\$ 48,712</u>

**NOTE 8 - DEFERRED REVENUE:**

Governmental funds report deferred revenues in connection with revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenues are as follows:

<u>Fund</u>	<u>Special Assessments Unavailable</u>
Sewer	\$ 17,305
Indian/Pickeral Debt	251,453
Northwest Water Debt	284,890
Sewer Debt	<u>221,017</u>
Totals	<u>\$ 774,665</u>

**Township of Pavilion**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 9 - INTERFUND TRANSFERS:**

A summary of interfund transfers for the year ended March 31, 2008, is as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Other governmental	\$ <u>500</u>	General	\$ <u>500</u>

The transfer from the General Fund to the other governmental fund represents an operating contribution to cover excess costs not anticipated.

**NOTE 10 - CONSTRUCTION CODE ACT:**

A summary of construction code enforcement transactions for the year ended March 31, 2008, is as follows:

Permit revenue	\$ 27,282
Inspections	<u>(27,282)</u>
Excess of revenues over expenses	\$ <u>-</u>

**NOTE 11 - RISK MANAGEMENT:**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 12 - DEFINED CONTRIBUTION PENSION PLAN:**

The Township provides pension benefits for all its elected officials through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan State Statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. Officials are eligible to participate from the date they are elected to office. The Township annually contributes 10% of the participant's base salary or \$200, whichever is more, and participants are immediately 100% vested. The Township made the required contributions of \$15,193. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

**Township of Pavilion**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 13 - PRIOR PERIOD ADJUSTMENTS:**

Prior period adjustments have been recorded in 2008 that resulted in fund balance and net asset restatements. Fund equity as of April 1, 2007, included in the financial statements, represents restated balances as presented below. The following schedule identifies the nature and amount of the adjustments recorded.

	<u>Fund balance</u>	<u>Net Assets</u>
	<u>Sewer</u>	<u>Governmental Activities</u>
Beginning of year, as previously reported	\$ 425,181	\$ 2,676,796
Prior period adjustments:		
Overstatement of receivable	<u>(22,900)</u>	<u>(202,900)</u>
Beginning of year, as restated	<u>\$ 402,281</u>	<u>\$ 2,473,896</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Township of Pavilion**  
**BUDGETARY COMPARISON SCHEDULE - General Fund**  
Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Taxes	\$ 208,000	\$ 201,374	\$ 214,179	\$ 12,805
Licenses and permits	31,000	45,000	27,933	(17,067)
Federal grants	-	27,360	27,360	-
State grants	415,300	419,803	400,738	(19,065)
Charges for services	41,500	45,500	46,879	1,379
Interest and rentals	5,400	8,400	5,963	(2,437)
Other	13,810	3,000	4,817	1,817
Total revenues	<u>715,010</u>	<u>750,437</u>	<u>727,869</u>	<u>(22,568)</u>
<b>EXPENDITURES</b>				
Legislative	<u>10,600</u>	<u>12,100</u>	<u>6,436</u>	<u>5,664</u>
General government:				
Supervisor	47,690	47,690	46,560	1,130
Election	13,800	9,242	8,542	700
Assessor	48,261	46,556	46,550	6
Clerk	49,758	49,758	49,016	742
Board of review	3,160	3,160	1,421	1,739
Treasurer	60,628	60,628	58,022	2,606
Hall and grounds	73,800	70,600	71,238	(638)
Cemetery	27,000	19,000	17,279	1,721
Other	126,300	116,200	86,688	29,512
Total general government	<u>450,397</u>	<u>422,834</u>	<u>385,316</u>	<u>37,518</u>
Public safety:				
Fire protection	88,100	88,100	88,302	(202)
Building inspections	<u>30,300</u>	<u>30,300</u>	<u>27,237</u>	<u>3,063</u>
Total public safety	<u>118,400</u>	<u>118,400</u>	<u>115,539</u>	<u>2,861</u>
Public works:				
Highways and streets	85,000	90,650	54,098	36,552
Street lights	1,400	1,400	1,237	163
Collection station	21,765	21,328	18,919	2,409
Drains	<u>18,700</u>	<u>18,550</u>	<u>18,491</u>	<u>59</u>
Total public works	<u>126,865</u>	<u>131,928</u>	<u>92,745</u>	<u>39,183</u>



**Township of Pavilion****BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2008

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	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
Community and economic development - planning and zoning	<u>\$ 16,100</u>	<u>\$ 14,560</u>	<u>\$ 13,350</u>	<u>\$ 1,210</u>
Capital outlay	<u>68,000</u>	<u>98,660</u>	<u>55,583</u>	<u>43,077</u>
Debt service - principal	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Debt service - interest	<u>10,000</u>	<u>12,000</u>	<u>10,200</u>	<u>1,800</u>
Total expenditures	<u>850,362</u>	<u>860,482</u>	<u>729,169</u>	<u>131,313</u>
<b>DEFICIENCY OF REVENUES OVER     EXPENDITURES</b>	<u>(135,352)</u>	<u>(110,045)</u>	<u>(1,300)</u>	<u>108,745</u>
<b>OTHER FINANCING USES</b>				
Transfer to Lakeview/Coles Landing Road	<u>-</u>	<u>-</u>	<u>(500)</u>	<u>(500)</u>
Transfer to Water	<u>(2,000)</u>	<u>(2,000)</u>	<u>-</u>	<u>2,000</u>
Total other financing uses	<u>(2,000)</u>	<u>(2,000)</u>	<u>(500)</u>	<u>1,500</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(137,352)</u>	<u>(112,045)</u>	<u>(1,800)</u>	<u>110,245</u>
<b>FUND BALANCES - BEGINNING</b>	<u>304,690</u>	<u>304,690</u>	<u>304,690</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 167,338</u>	<u>\$ 192,645</u>	<u>\$ 302,890</u>	<u>\$ 110,245</u>

**Township of Pavilion**  
**BUDGETARY COMPARISON SCHEDULE - Sewer Fund**  
Year ended March 31, 2008

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	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Interest	\$ 9,200	\$ 9,200	\$ 7,435	\$ (1,765)
Other	<u>46,000</u>	<u>46,000</u>	<u>18,934</u>	<u>(27,066)</u>
Total revenues	55,200	55,200	26,369	(28,831)
<b>EXPENDITURES</b>				
Public works	<u>55,200</u>	<u>55,200</u>	<u>45,967</u>	<u>9,233</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	(19,598)	(19,598)
<b>FUND BALANCES - BEGINNING</b>	<u>402,281</u>	<u>402,281</u>	<u>402,281</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 402,281</u>	<u>\$ 402,281</u>	<u>\$ 382,683</u>	<u>\$ (19,598)</u>

## **SUPPLEMENTARY INFORMATION**

**Township of Pavilion****COMBINING BALANCE SHEET - nonmajor governmental funds**

March 31, 2008

	<b>Special revenue funds</b>		
	<b><u>Revolving Improvement</u></b>	<b><u>Lakeview/ Coles Landing Road</u></b>	<b><u>Street Lighting #1</u></b>
<b>ASSETS</b>			
Cash	\$ 165,600	\$ 2,221	\$ 3,109
Receivables	<u>-</u>	<u>400</u>	<u>273</u>
Total assets	<u>\$ 165,600</u>	<u>\$ 2,621</u>	<u>\$ 3,382</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities - accounts payable	\$ -	\$ 2,550	\$ -
Fund Balances - unreserved, undesignated	<u>165,600</u>	<u>71</u>	<u>3,382</u>
Total liabilities and fund balances	<u>\$ 165,600</u>	<u>\$ 2,621</u>	<u>\$ 3,382</u>

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***Special revenue funds***

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<b><i>Street Lighting #2</i></b>	<b><i>Street Lighting #3</i></b>	<b><i>Weed Control</i></b>	<b><i>Water</i></b>	<b><i>Totals</i></b>
\$ 1,408	\$ 101	\$ 7,216	\$ 2,940	\$ 182,595
32	416	450	-	1,571
<u>\$ 1,440</u>	<u>\$ 517</u>	<u>\$ 7,666</u>	<u>\$ 2,940</u>	<u>\$ 184,166</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,550
1,440	517	7,666	2,940	181,616
<u>\$ 1,440</u>	<u>\$ 517</u>	<u>\$ 7,666</u>	<u>\$ 2,940</u>	<u>\$ 184,166</u>

*Township of Pavilion*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - nonmajor governmental funds**

*Year ended March 31, 2008*

	<i>Special revenue funds</i>		
	<i>Revolving Improvement</i>	<i>Lakeview/ Coles Landing Road</i>	<i>Street Lighting #1</i>
<b>REVENUES</b>			
Interest	\$ 4,390	\$ -	\$ -
Other	-	4,400	4,551
Total revenues	4,390	4,400	4,551
<b>EXPENDITURES</b>			
Public works	-	9,675	4,080
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	4,390	(5,275)	471
<b>OTHER FINANCING SOURCES</b>			
Transfers in	-	500	-
<b>NET CHANGE IN FUND BALANCES</b>	4,390	(4,775)	471
<b>FUND BALANCES - BEGINNING</b>	161,210	4,846	2,911
<b>FUND BALANCES - ENDING</b>	<u>\$ 165,600</u>	<u>\$ 71</u>	<u>\$ 3,382</u>

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***Special revenue funds***

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<b><i>Street Lighting #2</i></b>	<b><i>Street Lighting #3</i></b>	<b><i>Weed Control</i></b>	<b><i>Water</i></b>	<b><i>Totals</i></b>
\$ -	\$ -	\$ -	\$ -	\$ 4,390
<u>1,951</u>	<u>676</u>	<u>5,760</u>	<u>-</u>	<u>17,338</u>
1,951	676	5,760	-	21,728
<u>1,807</u>	<u>603</u>	<u>5,234</u>	<u>-</u>	<u>21,399</u>
<u>144</u>	<u>73</u>	<u>526</u>	<u>-</u>	<u>329</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500</u>
144	73	526	-	829
<u>1,296</u>	<u>444</u>	<u>7,140</u>	<u>2,940</u>	<u>180,787</u>
<u>\$ 1,440</u>	<u>\$ 517</u>	<u>\$ 7,666</u>	<u>\$ 2,940</u>	<u>\$ 181,616</u>

May 30, 2008

To the Board of Trustees  
Township of Pavilion

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pavilion for the year ended March 31, 2008, and have issued our report thereon dated May 30, 2008. Professional standards require that we provide you with the following information related to our audit.

*Our Responsibility under U.S. Generally Accepted Auditing Standards*

As stated in our engagement letter dated March 3, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Township of Pavilion are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008 except as to the correction in the method of accounting for certain assessments receivable, as disclosed in Note 13 to the financial statements. We noted no transactions entered into by Township of Pavilion during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Township's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.



1958-2008



The disclosures in the financial statements are neutral, consistent, and clear.

*Audit Adjustments*

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended March 31, 2008.

*Other Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Pavilion's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Communication Regarding Internal Control*

In planning and performing our audit of the financial statements of the Township of Pavilion as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Pavilion's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Township has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Township has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Trustees of the Township of Pavilion and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Sigfried Crandall P.C.*